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THE RAISING OF COOPERATIVE CAPITAL AND ITS ACCUMULATION IN CHINA

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A. The Nature of Cooperative Economy

In the development of a state-owned economy, one fundamental problem is how to secure the capital funds required. For the development of cooperatives, state support and financial assistance are necessary. But is the state strong enough financially to offer such aid?

Although the problem of apportioning capital funds to the different departments for the expansion of their production has been planned on an over-all basis, and although the pace of development of cooperatives should parallel that of state-owned enterprises, we are taking the problem of capital funds for co-operatives as an independent subject for full discussion here.

B. The Method of Combining Labor and Capital

In a new people's democratic society, cooperative economy tends to destroy free markets, for cooperatives in the people's democracy are a hindrance to the development of capitalism and a spur to the development of a socialistic economy. However, this type of self-motivating force is totally undesirable. An increase in the scale of production of cooperatives and an implementation of modern methods of production cannot be accomplished under present conditions in China by depending on funds derived solely from shares owned by the members of cooperatives, without state support and economic assistance. This is not to say, however, that without such support and assistance, we would be unable to open avenues for the soliciting and gathering of cooperative capital funds.

To meet the requirements of labor and producers, early liberated regions adopted the method of combining labor and capital. Both capital investors and



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laborers were considered members of the cooperative. Laborers of the cooperative not only could receive their wages according to the value of labor, but could also receive their share of interest, just as the capital investors do. Of course, the ratio of interest distribution between the laborer and the investor was different. Interest was decided on the basis of the actual need and individual characteristics of the cooperative.

When a cooperative needed a huge sum of capital, then the interest on capital shares was high. When the advantages of investing capital in cooperatives were proved, the people were encouraged to scrape together some money to invest. In this way, large capital funds could be collected.

This procedure can be applied universally. This was the condition under which the labor cooperative in the Shantung liberated area was developed. This practice shows that a determined application of the principle of advantages for both labor and capital, and the consequent assembling of the people's capital funds is a good method for the capitalization of cooperatives.

C. Issuing Cooperative Bonds

A cooperative that combines labor and capital has a partnership type of management. Investors and laborers are both members of the cooperative. Under democratic principles, people participate directly in the cooperative's confidential administrative work. But these people are limited to investors who live near the cooperative. Those who live a distance from the cooperative do not have time to participate directly in its management. But by assembling the capital funds of nearby cooperative members and establishing and developing small model cooperatives, participation becomes a reality.

But if a small model cooperative is to expand its production in a manner comparable to a large cooperative, then capital funds assembled in this manner are obviously insufficient. We should take one step further and assimilate the untapped capital funds of society. How can this be done?

The so-called untapped capital funds are funds that for some reason are insufficient for investment independently or for other causes are left idle. It would not be too difficult to assemble these funds for investment, if special incentives were offered. If a cooperative bank were to issue a type of cooperative bond, with interest slightly higher than that on savings funds, and, if the cooperative bank would guarantee the payment of interest and principle and be directly responsible for these payments, the people who hold untapped funds would gladly purchase such bonds.

The purchasers of these cooperative bonds are only creditors of the cooperative bank. They are not members of the cooperative, and do not participate directly in the administration or management of the cooperatives. After a specified period of time, they get back from the cooperative bank their interest and principle. At any time before the date these bonds mature, if the holders of these bonds need cash for immediate use, they may sell their bonds at a bond exchange market. In this way, people holding the untapped funds of society, even though they do not wish to join cooperatives directly, can still help finance cooperatives. And from this huge sum of capital funds, the cooperative bank could make loans to the various cooperatives on the basis of their need, thus enabling the cooperatives to expand and to develop their production.

Therefore, the floating of cooperative bonds really opens a new avenue for soliciting and gathering capital funds for cooperatives.

Cooperative bonds have another purpose than raising capital funds for the cooperatives, that of transforming private funds within the cooperative into capital funds of the cooperatives.

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Some production cooperatives, because of an expanded scale of production, build up an increased capital structure. This forces the laborer to take a decrease in wages?. Therefore, the ratio between investors and laborer's undergoes a change. And repeatedly the number of investors exceeds the number of laborers. If these investors no longer work in the cooperative, then they can easily become a controlling force over the laborers. This differs only slightly from the stockholders of capitalistic corporations. And, of course, this is not justified.

During the developmental stage, and in the interest of the firm establishment of a cooperative economy, this situation may be tolerated. But once the cooperative economy has completed the transformation from an individual economy to a collective economy, this situation would become a great obstacle. To remove this obstacle, we cannot directly confiscate investment funds, but we can purchase them with cooperative bonds, thus providing a means to control them.

The issuing of bonds is a method of raising capital funds from without. If this method is used properly, cooperative capital funds raised from it should be satisfactory.

Other than that, we can still devise a method to raise capital funds within the cooperative.

D. Method of Capital Fund Accumulation

For expanding the production of a cooperative and maintaining production equipment, other than by assistance from outside capital, a cooperative can set aside a portion of its surplus funds as reserves. When these funds accumulate to a sufficient amount, production can be expanded. This method has been widely used in cooperative movements in the Soviet Union.

During the first stage of a cooperative, it is fundamentally incomplete, and its profits are low. After reserve and welfare funds are taken out, then there is only a small fund left for bonuses for the members. This would destroy the people's interest in organizing cooperatives. Furthermore, funds accumulated in this way are limited in amount. Therefore, it would be better not to take out funds for reserve and welfare. But when the cooperative is completely established, its production scale expanded, its surplus funds increased, and when the members' understanding of the cooperative is increased, reserve and welfare funds can be taken out in addition to bonuses. As for the ratio between reserve funds and welfare funds, this should be decided on the basis of actual need. In general, when it is necessary for a cooperative to expand, then reserve funds should take up the greater portion.

If the various cooperatives would periodically deposit their reserves in the cooperative bank, then the cooperative bank could utilize this huge amount of reserves for tactical use, or loan them to the cooperatives. Or these reserves can be applied to retire the principle and interest on the cooperative bonds, thus making the finance of the cooperative more active.

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In addition, cooperatives should adopt the method promulgated by Soviet industrial cooperatives in which each cooperative is required to set up a surplus reserve and deposit it in a cooperative bank as a special reserve. This is also a means of strengthening the financial standing of the bank. Cooperatives should also deposit all their cash on hand in a cooperative bank, except for a small amount of working capital. Thus, the cooperative banks can fulfill the needs of the various cooperatives with the huge sum of funds on hand.

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